

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 AGRE-00
EA-12 AF-10 /137 W
-----079146 071320Z /42

R 071200Z DEC 77
FM AMEMBASSY BERN
TO SECSTATE WASHDC 5383
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 2 BERN 5744

USMTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY

PASS TREASURY AND FRB

EO 11652: NA
TAGS: EFIN SZ
SUBJ: SWISS FINACIAL REVIEW: WEEK OF NOV 27-DEC 3

1. SUMMARY: WEEK WAS DOMINATED BY ABRUPT FALL
OF DOLLAR RATE AGAINST SF TO SF 2.13. PRESS
CARRIED MUCH COMMENT ON EXCHANGE RATE DEVELOPMENTS.
SWISS NATIONAL BANK EXTENDED RULE TO PERMIT WATCH,
TEXTILE AND CLOTHING INDUSTRIES MAKE FORWARD FOREIGN
EXCHANGE OPERATION. CAPITAL MARKET LIQUIDITY
REMAINED HIGH OVER END NOV. SWISS VOTERS REJECTED
WEALTH TAX PROPOSAL AND APPROVED GOVT EFFORTS REDUCE
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BUDGET DEFICIT. SNB END NOV BALANCE SHEET WAS UP
5.7 PCT FROM OCT. END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: DEALERS SAID DOLLAR
RATE AGAINST SF FELL TO SF 2.14 MONDAY AFTER REPORT
US OCT TRADE DEFICIT; RECOVERY TO SF 2.16 WEDNESDAY
FOLLOWED REPORT MORE LIBERAL JAPANESE IMPORT POLICY.

PRESS REPORTED NEW YORK FED BOUGHT LARGE AMOUNT DOLLARS FOR SNB ACCOUNT. DEALERS GAVE NO EXPLANATION WHY DOLLAR RATE FELL TO SF 2.13 FRIDAY; SAID REPORTS OF EUROPEAN SNAKE DIFFICULTY MADE MARKET NERVOUS. GOLD PRICE SLIPPED IN UNSTEADY MARKET; LARGEST MOVEMENTS MONDAY AND THURSDAY. SOME DEALERS EXPECT SHORT TERM PRICE RISE WHILE OTHER EXPECT PRICE CONSOLIDATION NEAR 160 IN VIEW COMING IMF SALE. MOST DEALERS SAID PRICE INFLUENCED BY US FUTURES MARKET DEVELOPMENTS WHERE MANY POSITIONS STILL UNCOVERED FOR DEC DELIVERIES BECAUSE OF UNCERTAINTY WHETHER BUYERS WILL RESELL OR RETAIN GOLD PURCHASES: RATES FOLLOW:

ITEM - 11/28 (OPEN) - 12/2 (CLOSE)
SPOT DOLLAR - 2.1560 - 2.1360
FORWARD DISCOUNTS (PCT PER ANNUM)
ONE MONTH - 4.95 - 4.66
TWO MONTHS - 4.12 - 4.35
THREE MONTHS - 4.23 - 4.48
SIX MONTHS - 4.45 - 4.63
TWELVE MONTHS - 4.36 - 4.47
SF/DM - 97.29 - 96.78
GOLD - 159.25 - 158.5

3. GOVT VIEW: DANIEL DAESER, ASST DIR FINANCE AND CUSTOMS DEPT, TOLD PRESS YEN APPRECIATED MOST, BUT UNCLASSIFIED

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BECAUSE IT DIFFICULT INVEST IN YEN, THERE WAS GREAT UPWARD PRESSURE DUE TO DESIRE INVEST IN OTHER STRONG CURRENCIES. SAID DOLLAR IS UNDERVALUED. PART OF US TRADE DEFICIT RESULT FASTER US ECONOMIC RECOVERY. IMPROVED ECONOMIC SITUATION IN OTHER COUNTRIES WOULD REDUCE US DEFICIT. COORDINATED INTERVENTION BY CENTRAL BANKS TO CORRECT EXCHANGE RATES IS DIFFICULT BECAUSE EFFECT IS DISPERSED OVER MANY WORLD EXCHANGE MARKETS. HOWEVER, SPONTANEOUS CORRECTION COULD OCCUR AFTER CURRENT PERIOD INTENSE SPECULATION. SOME SF APPRECIATION INEVITABLE BECAUSE OF LOW SWISS INFLATION RATE COMPARED OTHER COUNTRIES. BUT, RECENT SF APPRECIATION CAME TOO FAST, SPECULATION IN SF CARRIES GREAT RISK BECAUSE CORRECTION WILL COME. OTHER COMMENT: SWISS HANDELS ZEITUNG DEC 1 REPORTED SF HAS APPRECIATED NOMINAL 100 PERCENT AGAINST

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USMTN ALSO FOR MISSION, USOECD ALSO FOR EMBASSY

PASS TREASURY AND FRB

DOLLAR SINCE MAY 1971. STRONGER SF HAS KEPT IMPORT
COSTS AND INFLATION RATE DOWN. HIGHER INFLATION
ABROAD GENERALLY OFFSET SF APPRECIATION DURING PAST
YEAR. HOWEVER, RECENT ABRUPT DECLINE OF DOLLAR AGAINST
SF HAS RENEWED CONCERN ABOUT SWISS EXPORT PRICE
COMPETITIVENESS. AGEFI AND TRIBUNE DE GENEVE
EDITORIALS NOV 30 STRESSED US TRADE DEFICIT SMALL
PERCENT OF US GNP; DOLLAR EXCHANGE RATE REFLECTS
DELIBERATE US POLICY AIMED AT JAPAN TRADE IMBALANCE;
BOTH TRENDS LIKELY TO CONTINUE AND CAUSE SERIOUS
PROBLEMS FOR OTHERS. TRIBUNE NOTED US IS SOLE
LOCOMOTIVE FOR INTL ECONOMY; SAID WORLD CRISIS WOULD
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RESULT IF US ECONOMIC GROWTH SLOWED. TRIBUNE SAID IT
"DANGEROUS" TO HAVE FOREIGN CENTRAL BANKS FINANCE US
TRADE DEFICIT BY PURCHASING US TREAS BILLS. HOWEVER,
LIMITATIONS ON ATTRACTIVE INVESTMENTS ELSEWHERE
(AMSTERDAM, FRANKFURT AND ZURICH) LEAVE SOLE INVESTMENT

ALTERNATIVE OF GOLD, WHICH WOULD NOT BENEFIT WORLD ECONOMY, ONLY SOVIETS AND SOUTH AFRICA.

5. SNB RULES: SNB EXTENDED 1976 AGREEMENT WITH WATCH, TEXTILE AND CLOTHING INDUSTRIES TO PERMIT FORWARD FOREIGN EXCHANGE OPERATIONS, BUT ONLY TO END 1978. ANNOUNCEMENT WAS WELL-RECEIVED BY EXCHANGE DEALERS IN VIEW RECENT MARKET DEVELOPMENTS, BUT POSSIBLE ADVANTAGE FOR EXPORTERS WAS EXPECTED TO BE SHORT TERM. PRESS REPORTED THIS WOULD BE LAST RENEWAL BECAUSE SNB PRES LEUTWILER NOT CONVINCED OF NEED SUPPORT THOSE INDUSTRIES.

6. CAPITAL AND MONEY MARKETS: BANKS MET END NOV REQUIREMENTS WITHOUT DIFFICULTY. BANKS SAID CALL MONEY RATE INCREASE REFLECTED UNEQUAL LIQUIDITY AMONG BANKS, NOT GENERAL SHORTAGE LIQUIDITY. TWO AND THREE MONTH MONEY RATES REMAINED 2.63. SNB PROVIDED BANKS NEARLY SF 3 BILLION IN SWAPS AND CREDITS. NOTES IN CIRCULATION ROSE SF 848 MILLION IN LAST WEEK NOV, EXPECTED INCREASE FURTHER IN DEC AND DECLINE IN JAN. SNB EXPECTS BANKS PASS END 1977 WITHOUT DIFFICULTY. ADDITIONAL LIQUIDITY OVER SF 2 BILLION EXPECTED IN DEC WHEN REVERSE SWAPS RELEASED, WHICH SHOULD KEEP MONEY RATES STABLE. MONEY RATES EXPECTED DECLINE IN JAN. SKA SHARE INDEX ROSE 2.4 PERCENT TO 245. ELECTROWATT LOAN AT 3 PERCENT INTEREST ATTRACTED GREAT INTEREST; FRIDAY EMISSION PRICE ROSE TO 107 PCT PAR BEFORE CLOSING 103.5 PCT.
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7. REFERENDUM: SWISS VOTERS DEC 4 REJECTED, BY 55.7 PCT NEGATIVE VOTES OF TOTAL VOTES CAST, LIBERAL INITIATIVE TO INTRODUCE UNIFORM NATL TAX ON WEALTH AIMED AT HIGHER INCOME GROUPS, ESPECIALLY CORPORATIONS. INITIATIVE WOULD ALSO HAVE LIMITED ABILITY OF CANTONS TO PROVIDE TAX INCENTIVES BY PLACING GREATER EMPHASIS ON DIRECT FEDERAL TAXATION TO RAISE REVENUES. VOTERS ALSO APPROVED, BY 62.4 PCT OF VOTES CAST, PHASE ONE PLAN TO REDUCE GOVT EXPENDITURES BY SF 530 MILLION IN 1978 AND SF 630 MILLION IN 1979, PARTLY BY REDUCING PRICE SUBSIDIES ON BREAD AND BUTTER.

8. SNB STATEMENT: END NOV BALANCE SHEET TOTAL WAS 5.7 PCT ABOVE END OCT BUT ONLY 0.7 PCT ABOVE END NOV 1976. FOREX HOLDINGS ROSE 11 PCT IN NOV BUT WERE 6.6 PCT ABOVE END NOV 1976. NOTES IN CIRCULATION WERE UP 2.5 PCT IN NOV AND 3 PCT COMPARED NOV 1976.

CHANGE FROM OCT 31 (IN MILLIONS OF SF)

ASSETS

GOLD - 11,904 - NIL - NIL

FOREX - 14,773 - UP - 1,459

ROOSA BONDS - 4,089 - DOWN - 175

DISCOUNTED PAPER - 1,344 - UP - 483

LOMBARD LOANS - 265 - UP - 176

OTHER - 953 - DOWN - 130

LIABILITIES

NOTES IN CIRCULATION - 19,198 - UP - 474

GIRO ACCTS - 7,208 - DOWN - 305

STERILIZATION ORDERS - 1,694 - UP - 800

OTHER - 5,228 - UP - 844

BALANCE SHEET TOTAL - 33,328 - UP - 1813.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
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Executive Order: N/A
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Format: TEL
From: BERN USMTN
Handling Restrictions: n/a
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Litigation Code IDs:
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Litigation History:
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Message ID: e40c160a-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 16-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 334572
Secure: OPEN
Status: NATIVE
Subject: SWISS FINANCIAL REVIEW: WEEK OF NOV 27-DEC 3
TAGS: EFIN, SZ
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/e40c160a-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009